

TOWNSHIP OF SOMERSET, MICHIGAN
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Somerset	County Hillsdale
Fiscal Year End 06/30/07	Opinion Date 10/18/07	Date Audit Report Submitted to State 11/16/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

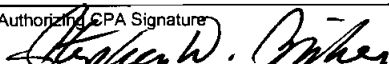
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Osbourne, March, Condon & Co., P.C.		Telephone Number 517.439.9331	
Street Address 184 W Carleton Road		City Hillsdale	State MI
Authorized CPA Signature 		Printed Name Stephen W. Bisher	License Number 1101026492

TOWNSHIP OF SOMERSET, MICHIGAN

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Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Township Board
Township of Somerset, Michigan
Somerset Center, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2007 on our consideration of Township of Somerset, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages iii through viii and 19 through 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
October 18, 2007

TOWNSHIP OF SOMERSET, MICHIGAN

Management's Discussion and Analysis June 30, 2007

The following discussion and analysis of the financial performance for the Township of Somerset, Michigan (the "Township") provides an overview of the Township's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Township's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2007:

- Property taxes are the Township's single, largest source of revenue. The Township's tax base for fiscal year 2007 was equal to a taxable value of \$185,608,734, which represents an increase of \$40,835 or 7.32 percent.
- State-shared revenue, the second largest revenue source, was decreased by the State of Michigan by approximately \$5,300 this year. This represents a 2 percent decrease from the prior year.
- The Township was awarded a \$51,598 Assistance to Firefighters Grant by the U.S. Department of Homeland Security for the purchase of firefighting gear.
- The Township was awarded a \$5,000 Challenge Award Grant by the Michigan Office of highway Safety Planning for the purchase of police equipment.
- The Township purchased a new fire truck at a cost of approximately \$300,000, of which \$200,000 was financed.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township of Somerset, Michigan's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business, and therefore, are prepared using the accrual basis of accounting. These statements provide a long-term view of the Township's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.
- The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues and earned but unused sick and vacation leave).

Overview of the Financial Statements (Concluded)

Government-wide financial statements (concluded). The governmental activities of the Township include general government, public safety, highways and roads, capital improvements, and parks and recreation.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township of Somerset, Michigan, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Township's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township of Somerset, Michigan maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Roads, Fire, Police, and Capital Improvement Funds, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation and are comprised of the Parks and Recreation Fund and Cemetery Perpetual Care Permanent Fund.

The Township adopts an annual appropriated budget for all of its funds. Budgetary comparison schedules have been provided for the General, Roads, Fire, Police, and Capital Improvement Funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 3-6 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the Tax Fund, where property taxes are collected and disbursed on behalf of and to other local units of government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support Township of Somerset, Michigan's own programs. The basic fiduciary fund financial statements can be found on page 7 of this report.

TOWNSHIP OF SOMERSET, MICHIGAN

Management's Discussion and Analysis June 30, 2007

Financial Analysis of the Township as a Whole

The Township's net assets decreased by approximately 8 percent from a year ago, decreasing from \$2.15 million to \$1.98 million.

The decrease in net assets of governmental activities in the amount of \$170,137 is primarily due to (1) a large increase in sewer ad-hoc committee expenses, and (2) increases in road improvement and maintenance expenses.

The following table shows, in a condensed format, the net assets of the Township of Somerset, Michigan as of June 30, 2006 and 2007.

TABLE 1 – Township of Somerset, Michigan's Net Assets

	GOVERNMENTAL ACTIVITIES	
	2007	2006
Assets		
Current assets	\$ 737,071	\$ 988,803
Capital assets	1,194,110	879,349
Other non-current assets	297,375	303,500
Total Assets	<u>\$ 2,228,556</u>	<u>\$ 2,171,652</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities	\$ 87,808	\$ 15,563
Long-term liabilities	154,798	
Total Liabilities	<u>\$ 242,606</u>	<u>\$ 15,563</u>
Net Assets:		
Invested in capital – net of related debt	\$ 1,022,812	\$ 879,349
Restricted	34,422	56,395
Unrestricted	929,016	1,220,345
Total Net Assets	<u>\$ 1,985,950</u>	<u>\$ 2,156,089</u>
Total Liabilities and Net Assets	<u>\$ 2,228,556</u>	<u>\$ 2,171,652</u>

TOWNSHIP OF SOMERSET, MICHIGAN

Management's Discussion and Analysis June 30, 2007

Financial Analysis of the Township as a Whole (Concluded)

The following is the government-wide results of operations for the fiscal year ended June 30, 2007:

The Township's total revenues were \$1,014,654 for the current year, of which 43% was comprised of property taxes. Charges for services accounted for another 14%. State-shared revenues represent 28% and operating and capital grants and contributions totaled 6%. Other revenues (donations, interest, etc.) were 4%. The total cost of all programs and services at June 30, 2007 was \$1,184,793. Township expenses cover a wide range of services. For the current fiscal year the Township's expenses were comprised of 42% for general government, 28% for public safety, 6% for parks and recreation, 18% for highways and roads, and 6% for unallocated depreciation.

TABLE 2 – Changes in Township of Somerset, Michigan's Net Assets

	GOVERNMENTAL ACTIVITIES	
	2007	2006
Revenue		
Program Revenue		
Charges for services	\$ 147,053	\$ 143,734
Operating grants and contributions	8,420	5,483
Capital grants and contributions	56,598	7,000
General Revenue		
Property taxes	440,756	415,907
State-shared revenues	288,797	294,124
Interest	31,130	29,800
Other	41,900	26,211
Total Revenue	<u>\$ 1,014,654</u>	<u>\$ 922,259</u>
Program Expenses		
General government	\$ 499,406	\$ 379,465
Public safety	328,658	258,574
Highways and roads	209,802	102,029
Parks and recreation	71,050	31,885
Capital outlay	5,604	6,241
Depreciation (unallocated)	70,273	70,611
Total Program Expenses	<u>\$ 1,184,793</u>	<u>\$ 848,805</u>
Change in Net Assets, before significant items	(170,139)	73,454
Significant items		62,833
Change in Net Assets, after significant items	<u>\$ (170,139)</u>	<u>\$ 136,287</u>

Governmental Activities

In fiscal year 2007 the Township experienced a decrease in its State-shared revenues in the amount of \$5,327 due to statewide economic conditions. In total, the Township's revenues remained about the same due to the increase in property taxes and interest earnings.

During the year, with all five (5) major Millages expiring December 31, 2006, most funds and departments were asked to watch spending practices until results of the 2007 Millage Election

Financial Analysis of the Township's Funds

The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purpose as well as to show accountability for certain activities, such as special property tax Millages, grants, contributions or capital projects. The Township's major funds for 2006/2007 consist of the following funds: General, Fire, Road, Parks and Recreation and Capital Improvement.

The General Fund is the main operating fund of the Township. Total General Fund revenues and transfers for fiscal year 2006/2007 decreased. The decrease is attributable to two main facts: (1) reduction in State-shared revenues, and (2) building permits sold during the current fiscal year were approximately 38% or \$42,700 less than prior year.

General Fund expenditures decreased due to a level funding budget; i.e., greater measures taken to control costs.

As of June 30, 2007 the fund balance in the General Fund was \$402,876, representing over 62% of General Fund operating expenditures and transfers.

The Fire Fund ended the year with revenues approximately \$65,000 more than prior due primarily to a Federal Grant and an increase in Run Fees. Expenditures increased over prior year by \$396,921 resulting from the purchase of new fire truck and increase in training costs.

The Road Fund revenues are approximately the same as prior year. However, expenses are down due to the decrease in contracting road projects.

Capital Improvement Fund revenues remain level with prior year. However, General Fund appropriations were down by \$60,000 because no major projects or purchases were budgeted due to unsure Millage results.

The other non major funds consist of the Police and Cemetery Funds. Those funds remained relatively consistent with prior year.

General Fund Highlights

The General Fund accounts for all property tax assessing, elections, cemetery activities, planning, zoning, and other administrative functions of the Township government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts. However, for fiscal year ended June 30, 2007 the Township was under budget by approximately 17%.

Capital Asset and Debt Administration

At the end of fiscal year 2007, the Township had approximately \$1,194,110 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, etc. There is no related infrastructure reported in the year end net capital investment. The township elects to follow the method of prospective reporting of infrastructure assets provided in the new reporting pronouncement.

During the year, the Township's only debt obligation related to capital investments was the purchase of a new fire truck.

The Township properly maintains existing equipment and carefully plans for equipment replacements to avoid burdening taxpayers with additional debt millage to replace existing equipment.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for 2006/2007 is based on the same property tax rate as was for year ended June 30, 2007. This can be accomplished because of the continuous growth in the tax base. However, because of the impact of the State-shared revenue cuts, the Township will continue to watch its budget very close.

The 2007/2008 budget was based on the passing of the 5 Millages and reinstatement of the 1 Mill General Allocated Millage, the Township will revisit and amend the 2007/2008 budget if the result of the election is negative.

During the 2007/2008 budget year, the Township will continue with the investigative/feasibility study for sewers. The Township will be sending out a petition/ballot to all property owners within the proposed special assessment district in July of 2007 to determine the wanting of a sewer system. It will be the results of that vote whether the Township will precede with any further expenditure. The additional expenditures would be expected some time in September 2007.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements, we welcome you to contact the Township Clerk's office located at 12715 East Chicago Road, Somerset, Michigan 49282.

TOWNSHIP OF SOMERSET, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2007

	GOVERNMENTAL ACTIVITIES
ASSETS	
Current Assets:	
Cash	\$ 439,369
Investments	121,142
Prepaid expenses	3,420
Accounts receivable	11,122
Special assessment receivable, current portion	4,750
Due from agency fund	209
Due from other governmental units	<u>157,059</u>
Total Current Assets	<u>\$ 737,071</u>
Noncurrent Assets:	
Special assessment receivable, net of current portion	\$ 9,500
Grave sites available for sale	287,875
Capital assets	1,929,221
Less: accumulated depreciation	<u>(735,111)</u>
Total Noncurrent Assets	<u>\$ 1,491,485</u>
TOTAL ASSETS	<u><u>\$ 2,228,556</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$ 41,382
Compensated absences	2,244
Other accrued liabilities	182
Long term debt, current portion	<u>44,000</u>
Total Current Liabilities	<u>\$ 87,808</u>
Long-term debt, net of current portion	<u>\$ 154,798</u>
TOTAL LIABILITIES	<u>\$ 242,606</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 1,022,812
Restricted:	
Metro Act expenditures	32,956
Police training	604
Cemetery perpetual care:	
Nonexpendable	500
Expendable	62
Unrestricted	<u>929,016</u>
Total Net Assets	<u>\$ 1,985,950</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,228,556</u></u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITIES					
General government	\$ 499,406	\$ 120,083	\$	\$	\$ (379,323)
Public safety	328,658	11,478	2,059	56,598	(258,523)
Highways and roads	209,802		5,244		(204,558)
Parks and recreation	71,050	15,492	1,117		(54,441)
Capital outlay	5,604				(5,604)
Depreciation (unallocated)	70,273				(70,273)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 1,184,793</u>	<u>\$ 147,053</u>	<u>\$ 8,420</u>	<u>\$ 56,598</u>	<u>\$ (972,722)</u>
GENERAL REVENUES					
Property taxes					\$ 440,756
State-shared revenues					288,797
Interest					31,130
Other					<u>41,900</u>
TOTAL GENERAL REVENUES					<u>\$ 802,583</u>
CHANGE IN NET ASSETS					\$ (170,139)
NET ASSETS - BEGINNING					<u>2,156,089</u>
NET ASSETS - ENDING					<u>\$ 1,985,950</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	GENERAL FUND	ROADS	FIRE
ASSETS			
Cash and cash equivalents	\$ 230,133	\$ 110,157	\$ 3,731
Investments	44,257	3,954	218
Prepaid expenses	3,420		
Accounts receivable	11,122		
Due from other funds	13,640		
Due from other government units	<u>125,815</u>	<u>5,419</u>	<u>11,079</u>
TOTAL ASSETS	<u><u>\$ 428,387</u></u>	<u><u>\$ 119,530</u></u>	<u><u>\$ 15,028</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 25,468	\$ 13,016	\$
Other accrued liabilities	43		43
Due to other funds	<u></u>	<u>13,431</u>	<u></u>
Total Liabilities	<u><u>\$ 25,511</u></u>	<u><u>\$ 26,447</u></u>	<u><u>\$ 43</u></u>
Fund Balances:			
Reserved for:			
Metro Act expenditures	\$	\$ 32,956	\$
Police training			
Cemetery perpetual care			
Unreserved:			
Undesignated	<u>402,876</u>	<u>60,127</u>	<u>14,985</u>
Total Fund Balances	<u><u>\$ 402,876</u></u>	<u><u>\$ 93,083</u></u>	<u><u>\$ 14,985</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 428,387</u></u>	<u><u>\$ 119,530</u></u>	<u><u>\$ 15,028</u></u>

See accompanying notes to the basic financial statements.

PARKS AND RECREATION	CAPITAL IMPROVEMENT	OTHER NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 31,913	\$ 51,262	\$ 12,173	\$ 439,369
33,169	23,759	15,785	121,142
			3,420
			11,122
			13,640
3,607	3,607	7,532	157,059
<u>\$ 68,689</u>	<u>\$ 78,628</u>	<u>\$ 35,490</u>	<u>\$ 745,752</u>
\$ 898	\$	\$ 2,000	\$ 41,382
		96	182
			13,431
<u>\$ 898</u>	<u>\$</u>	<u>\$ 2,096</u>	<u>\$ 54,995</u>
\$	\$	\$	\$ 32,956
		604	604
		562	562
67,791	78,628	32,228	656,635
<u>\$ 67,791</u>	<u>\$ 78,628</u>	<u>\$ 33,394</u>	<u>\$ 690,757</u>
<u>\$ 68,689</u>	<u>\$ 78,628</u>	<u>\$ 35,490</u>	<u>\$ 745,752</u>

TOWNSHIP OF SOMERSET, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
JUNE 30, 2007

GOVERNMENTAL FUND BALANCES \$ 690,757

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources, and
are not reported in the funds

The cost of the capital assets is	\$ 1,929,221	
Accumulated depreciation is	<u>(735,111)</u>	
		1,194,110

Receivables are expected to be collected in future years and are not available to pay for current year expenditures	14,250
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Cemetery grave sites available for sale are not current financial resources	287,875
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Long-term liabilities are not due and payable in the current period and are not reported
in the funds

Compensated absences	(2,244)
Long-term debt	<u>(198,798)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,985,950</u></u>
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See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2007

	GENERAL FUND	ROADS	FIRE
REVENUES			
Taxes	\$ 119,059	\$ 44,901	\$ 120,597
State revenues	288,797	5,244	
Federal revenues			51,598
Charges for services	74,067		7,175
Licenses and permits	26,474		
Fines, fees, and forfeits	15,227		
Interest	15,516	6,918	1,136
Rental revenue	4,315		
Other	32,885		9,451
	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	\$ 576,340	\$ 57,063	\$ 189,957
EXPENDITURES			
General government	\$ 500,925	\$	\$
Public safety			222,829
Highways and roads		218,202	
Parks and recreation			315,991
Capital outlay			
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	\$ 500,925	\$ 218,202	\$ 538,820
REVENUES OVER (UNDER) EXPENDITURES	\$ 75,415	\$ (161,139)	\$ (348,863)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$	\$ 15,650	\$ 157,437
Operating transfers (out)	(148,607)		
Loan proceeds			200,000
Payments on long-term debt			(35,920)
	<u> </u>	<u> </u>	<u> </u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (148,607)	\$ 15,650	\$ 321,517
NET CHANGE IN FUND BALANCE	\$ (73,192)	\$ (145,489)	\$ (27,346)
FUND BALANCES - BEGINNING	476,068	238,572	42,331
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES - ENDING	\$ 402,876	\$ 93,083	\$ 14,985
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to the basic financial statements.

PARKS AND RECREATION	CAPITAL IMPROVEMENTS	OTHER NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 40,151	\$ 40,151	\$ 80,647	\$ 445,506
		500	294,541
		5,000	56,598
		574	81,816
			26,474
		3,729	18,956
2,426	3,790	1,344	31,130
15,492			19,807
1,117		2,498	45,951
<u>\$ 59,186</u>	<u>\$ 43,941</u>	<u>\$ 94,292</u>	<u>\$ 1,020,779</u>
\$	\$	\$	\$ 500,925
		116,446	339,275
			218,202
43,550			43,550
<u>43,550</u>	<u>50,488</u>	<u>116,446</u>	<u>366,479</u>
\$ 43,550	\$ 50,488	\$ 116,446	\$ 1,468,431
\$ 15,636	\$ (6,547)	\$ (22,154)	\$ (447,652)
\$	\$	\$ 7,520	\$ 180,607
	(32,000)		(180,607)
			200,000
			(35,920)
<u>\$</u>	<u>\$ (32,000)</u>	<u>\$ 7,520</u>	<u>\$ 164,080</u>
\$ 15,636	\$ (38,547)	\$ (14,634)	\$ (283,572)
52,155	117,175	48,028	974,329
<u>\$ 67,791</u>	<u>\$ 78,628</u>	<u>\$ 33,394</u>	<u>\$ 690,757</u>

TOWNSHIP OF SOMERSET, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

JUNE 30, 2007

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (283,572)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures and in the statement of activities these costs are allocated over their estimated useful lives as depreciation

Depreciation expense	\$ (70,273)	
Capital outlay	<u>385,033</u>	314,760

Repayment of bank notes, revenue bonds, and other long-term obligations are expenditures in the governmental funds, but not in the statement of activities, where it reduces long-term debt	28,702
---	--------

Decrease in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	3,596
--	-------

Receipts for the sale of cemetery grave sites are revenue in the governmental funds, but the receipts reduce cemetery graves sites available for sale in the governmental activities	(1,375)
--	---------

Receipts collected on special road assessments are revenues in the governmental funds, but the receipts reduce long-term receivables in the governmental activities	(4,750)
---	---------

Services performed under a contract with long-term payment arrangements are expensed in the statement of activities, but not in the governmental funds	(27,500)
--	----------

Proceeds from bank notes are revenues in the governmental funds, but not in the statement of activities.	<u>(200,000)</u>
--	------------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (170,139)</u>
---	---------------------

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN
FIDUCIARY FUND
STATEMENT OF ASSETS AND LIABILITIES
JUNE 30, 2007

TAX
COLLECTION
AGENCY
FUND

ASSETS

Cash

\$ 209

LIABILITIES

Due to other funds

\$ 209

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Somerset, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

The Township of Somerset (the "Township") was organized in 1837. The Township operates under a part-time elected board and provides the following services to its residents: Public Safety - police and fire, Parks and Recreation, Public Improvements, and General Administrative Services.

ECONOMIC DEPENDENCY

The Township is economically dependent on the State of Michigan for state shared revenues. Absent allocations from the State, the Township's operating results would report expenditures exceeding revenues in its General Fund. Furthermore, the General Fund would be in a deficit position within a two year period continuing the services the Township currently provides.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Township. For the most part, the effect of inter-fund activity has been removed from these statements. All the Township's government-wide activities are considered governmental activities, which are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND
FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The effect of inter-fund activity has been eliminated from the government-wide financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND
FINANCIAL STATEMENT PRESENTATION (CONCLUDED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenues. All other revenue items are considered to be available only when cash is received by the Township.

The Township reports the following major governmental funds:

The *General Fund* is the general operating fund of the Township. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The *Road Fund* is a Special Revenue Fund used to account for road maintenance costs. The costs are funded through the collection of property taxes and General Fund appropriations.

The *Fire Fund* is a Special Revenue Fund used to account for fire protection services. The costs are funded through the collection of property taxes, General and Capital Improvement Fund appropriations, and service fees.

The *Parks and Recreation Fund* is a Special Revenue Fund used to account for the maintenance and improvement of the Township parks. The costs are funded through the collection of property taxes and rental fees.

The *Capital Improvement Fund* accounts for the acquisition or construction of major capital improvements and equipment. The costs are funded through the collection of property taxes and General Fund appropriations.

Additionally, the Township reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Permanent Funds account for assets held by the Township pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund. The Township's permanent fund is a Cemetery Memorial Fund. This fund is reported as another non-major governmental fund.

Fiduciary Funds are used to account for assets held in a trustee or agency capacity for others and therefore are not available to support Township operations. The Township's only Fiduciary Fund type is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township presently collects and distributes property taxes on behalf of and to other local units of government through its agency fund.

TOWNSHIP OF SOMERSET, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BANK DEPOSITS

All accounts and deposits with original maturity of three months or less from date of acquisition are considered to be cash.

RECEIVABLES AND PAYABLES

Outstanding balances and activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

All receivables are reported at their net realizable values.

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment and vehicles are reported in the government-wide financial statements. The Township defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year, as well as all computers, TV's, radios, and VCR's. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend the life of an asset are not capitalized but rather expensed in the period incurred.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	YEARS
Buildings	40
Improvements	15-40
Equipment	5-20
Furniture and library books	3-5
Vehicles	3-20

CEMETERY GRAVE SITES

The Township has available for sale 2,303 grave sites. These grave sites are priced at the resident rate of \$125 per grave site. At June 30, 2007 the grave sites are valued at \$287,875 and reported as non-current assets in the statement of net assets.

COMPENSATED ABSENCES

Full time employees are eligible to earn vacation and sick/personal leave time. Vacation leave time is earned based on the number of service years employed. Sick/leave is earned annually and is limited to six days per year. All leave time earned is available to the employees on their anniversary hire date. Leave time is not allowed to accumulate and must be used prior to the employee's anniversary date. At June 30, 2007 the balance of unused leave exceeded paid leave time in the amount of \$2,244.

TOWNSHIP OF SOMERSET, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM OBLIGATIONS

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Restricted net assets reported in the government-wide financial statements are reported as such from restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PROPERTY TAX

The Township of Somerset, Michigan bills and collects property taxes and distributes them to other local units of government. Properties are assessed as of December 31, and the related real property taxes are levied and become a lien on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 28, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all uncollected delinquent real property tax to the Township by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

BUDGETS AND BUDGETARY ACCOUNTING

The Township's budgetary procedures in establishing budgetary data reflected in the financial statements are as follows:

1. The Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is usually enacted through passage of a resolution.

TOWNSHIP OF SOMERSET, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

BUDGETS AND BUDGETARY ACCOUNTING (CONCLUDED)

4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Project Fund.
5. Budgets for the General, Special Revenue, and Capital Project Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the Township Board. Budgets for the General Fund are adopted on a functional basis.
6. Any excess amount budgeted for expenditures are covered by a carryover in fund balance from previous years.
7. The budgeted revenues and expenditures for major funds are presented in a budgetary comparison schedule as required supplemental information.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2007.

NOTE 2: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

At year end, the deposits were reported in the basic financial statements in the following categories:

	GOVERNMENTAL ACTIVITIES	FIDUCIARY FUNDS	TOTAL
Cash	\$ 405,247	\$ 209	\$ 405,456
Cash – restricted	34,122		34,122
Investments	121,142		121,142
	<u>\$ 560,511</u>	<u>\$ 209</u>	<u>\$ 560,720</u>

Restricted cash comprises reserved fund balances and restricted net assets as disclosed in Note 8.

TOWNSHIP OF SOMERSET, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

NOTE 2: CASH AND INVESTMENTS (CONCLUDED)

The breakdown between cash and investments for the Township are as follows:

	TOTAL
Cash (checking accounts, savings accounts and certificates of deposits)	\$ 439,403
Money market fund	121,142
Petty cash	175
	<hr/>
Total	\$ 560,720
	<hr/>

Deposits

The Township's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) as \$ 614,181. Of that amount, \$310,294 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Investments

Investments are normally categorized to give an indication of the level of risk assumed by the Township. As of June 30, 2007, the Township held investments in a money market fund, totaling \$121,141, which was rated AAA by Standard & Poor's rating service. Additionally, there is no custodial risk because the fund is not evidenced by securities that exist in physical or book entry form.

The investment policy adopted by the Township Council is in accordance with Public Act 196 of 1997.

NOTE 3: SPECIAL ASSESSMENT RECEIVABLE

In year ended June 30, 2001 the Township provided a road paving project at the request of local property owners residing in the Township. In exchange for the new paved road the property owners agreed to a special property tax assessment to pay for the project. The cost of the project totaled \$52,000 to be collected over ten years. Property owners are assessed \$125 per parcel plus interest at 8% annually. The assessment continues through the year ending June 30, 2010. The special assessment receivable is reported in the statement of net assets.

JUNE 30	PRINCIPAL	INTEREST	TOTAL
2008	\$ 4,750	\$ 890	\$ 5,640
2009	4,750	510	5,260
2010	<u>4,750</u>	<u>54</u>	<u>4,804</u>
	<u>\$ 14,250</u>	<u>\$ 1,454</u>	<u>\$ 15,704</u>

TOWNSHIP OF SOMERSET, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 4: OPERATING LEASE

On February 28, 2006, the Township entered into a lease agreement to lease real property located in the Township's park to New Cingular Wireless PCS LLC for the installation of a cellular phone tower. The terms of the lease require monthly lease payments payable to the Township of Somerset in the amount of \$1,200 commencing on April 1, 2006 through March 1, 2011. The lease agreement provides the company the option of extending the lease up to an additional twenty years. The option can only be exercised through written notification to the Township prior to the termination of the first five year term.

During the fiscal year, the Township recognized \$14,400 in lease revenue in its General Fund.

The following is a schedule of future minimum lease collections:

2008	\$ 14,400
2009	14,400
2010	14,400
2011	<u>14,400</u>
	<u>\$ 57,600</u>

NOTE 5: CAPITAL ASSETS

	BALANCE JULY 1, 2006	ADDITIONS	DISPOSALS	BALANCE JUNE 30, 2007
<u>GOVERNMENTAL ACTIVITIES</u>				
Capital assets not being depreciated:				
Land	\$ 226,000	\$	\$	\$ 226,000
Capital assets being depreciated:				
Buildings and improvements	566,324	26,177		592,501
Machinery and equipment	207,180	15,500		222,680
Vehicles	462,162	329,172	23,484	767,850
Office equipment & furnishings	<u>106,006</u>	<u>14,184</u>	<u></u>	<u>120,190</u>
Subtotal	<u>\$ 1,567,672</u>	<u>\$ 385,033</u>	<u>\$ 23,484</u>	<u>\$ 1,929,221</u>
Accumulated depreciation:				
Buildings and improvements	\$ 270,066	\$ 18,599	\$	\$ 288,665
Machinery and equipment	88,494	15,143		103,637
Vehicles	279,501	30,985	23,484	287,002
Office equipment & furnishings	<u>50,261</u>	<u>5,546</u>	<u></u>	<u>55,807</u>
Subtotal	<u>\$ 688,322</u>	<u>\$ 70,273</u>	<u>\$ 23,484</u>	<u>\$ 735,111</u>
Net Capital Assets	<u>\$ 879,350</u>	<u>\$ 314,760</u>	<u>\$</u>	<u>\$ 1,194,110</u>

Unallocated depreciation expense charged to governmental activities totaled \$70,273.

TOWNSHIP OF SOMERSET, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 6: LONG-TERM DEBT

Long-term debt at June 30, 2007 is comprised of the following:

Contract with Frontier Rustic Sculpting in the amount of \$27,500, unsecured, payable in monthly installments of \$1,200 that includes interest at a rate of 5%, through July, 2009.	\$ 27,500
Loan with County National Bank in the amount of \$200,000, secured by fire truck, payable in monthly installments of \$3,201 that includes interest at a rate of 4.72% through August, 2012.	<u>171,298</u>
	198,798
Less: current portion of long-term debt	<u>44,000</u>
TOTAL LONG-TERM DEBT	<u>\$ 154,798</u>

The following is a summary of changes in long-term debt:

	BALANCE JULY 1, 2006	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2007
<u>GOVERNMENTAL ACTIVITIES</u>				
Frontier Rustic Sculpting	\$	\$ 27,500	\$	\$ 27,500
County National Bank	<u></u>	<u>200,000</u>	<u>28,702</u>	<u>171,298</u>
Total Governmental Activities	<u>\$</u>	<u>\$ 227,500</u>	<u>\$ 28,702</u>	<u>\$ 198,798</u>

The following is a schedule of principal and interest maturities:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 44,000	\$ 8,818	\$ 52,818
2009	46,000	6,818	52,818
2010	34,000	4,618	38,618
2011	36,000	2,618	38,618
2012-13	<u>38,798</u>	<u>2,287</u>	<u>41,085</u>
	<u>\$ 198,798</u>	<u>\$ 25,159</u>	<u>\$ 223,957</u>

Cash paid for interest and expensed during the year totaled \$7,218 and is reported as a direct expense in the public safety function in the statement of activities.

TOWNSHIP OF SOMERSET, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

NOTE 6: LONG-TERM DEBT (CONCLUDED)

The above note with Frontier Rustic Sculpting was negotiated with an independent contractor in consideration for restoration services performed on the McCourtie Park bridges. The terms of the note require monthly installments to be made each month over a period of twenty-five months at no stated interest rate, for a total of \$29,000. The present value of the note at June 30, 2007 was computed by discounting the future cash payments to be paid at the Township's long-term borrowing rate of 5%.

NOTE 7: INTERFUND LOAN

During the 2001 year the Township's General Fund loaned the Road Fund \$30,000 towards a paving project disclosed in Note 4. The Road Fund is required to repay the principal amount loaned plus 8% interest back to the General Fund from amounts collected on the special assessment each year until fully paid by 2010. At June 30, 2007 the outstanding obligation to the General Fund was \$13,431, comprised of a principal balance of \$10,831 and accrued interest of \$2,600.

NOTE 8: EQUITIES

Reserved fund balances and restricted net assets at June 30, 2007 were as follows:

<u>Fund Balance</u>	RESERVED
Police Fund	
Police training -- Act 302	\$ 604
Road Fund	
Metro Act funding	32,956
Cemetery Permanent Fund	
Cemetery perpetual care	
Nonexpendable	500
Expendable	<u>62</u>
	<u>\$ 34,122</u>

Reserved

- Act 302 monies received from the State of Michigan are restricted for police training.
- Metro Act monies received from the State of Michigan are restricted for right-of-way improvements and/or street lighting costs.
- Cemetery perpetual care monies are restricted into perpetuity whereby only interest earnings may be expended towards cemetery maintenance costs.

TOWNSHIP OF SOMERSET, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

NOTE 9: EXPENDITURES OVER BUDGET

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved Fire Fund and Road Fund budgets of the Township were adopted at the fund level. During the year ended June 30, 2007, the Township incurred expenditures in the funds, which were in excess of the amended budget as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Fire Fund	\$ 314,131	\$ 538,820	\$ 224,689
Road Fund	\$ 172,211	\$ 218,202	\$ 45,991

NOTE 10: OPERATING TRANSFERS

Interfund transfers for the current year were as follows:

Governmental Activities

Transfers out from:	Transfers in to:	
General Fund	Fire Fund	\$ 125,437
General Fund	Road Fund	15,650
General Fund	Police Fund	7,520
Capital Improvement Fund	Fire Fund	<u>32,000</u>
	Total	<u>\$ 180,607</u>

All transfers between Township funds are approved appropriations in the 2006-2007 budgets.

- Transfers from the General Fund subsidize other fund's operations.
- Capital Improvement Fund transfer to the Fire Fund provided funding for equipment purchases and maintenance during the year.

NOTE 11: INTERFUND RECEIVABLES AND PAYABLES

The following are interfund receivables (due from) and interfund payables (due to), reported in governmental activities and the fiduciary fund:

	DUE FROM - COLLECTABLE BY:	DUE TO - PAYABLE BY:	
a.	General Fund	Tax Agency Fund	\$ 209
b.	General Fund	Road Fund	<u>13,431</u>
			<u>\$ 13,640</u>

- a. For unremitted administration fees, penalties, and interest.
- b. For loan made by the General Fund to the Road Fund.

TOWNSHIP OF SOMERSET, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2007

NOTE 12: RISK MANAGEMENT

The Township of Somerset, Michigan is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The Township of Somerset, Michigan has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific Township of Somerset, Michigan facilities or events.

The Township continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 13: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, Township management does not believe such disallowances, if any, will be material to the financial position of the Township.

NOTE 14: SUBSEQUENT EVENT

The five Township millages, which fund operations, expired on December 31, 2006. Renewals for all five millages were placed on the August 7, 2007 ballot. Only the fire protection millage passed. The failed millage renewals have been placed on the November, 2007 ballot. If the millages are not renewed by voters in November 2007, the Township plans to reduce the budgets for parks and recreation, road, and police services by approximately \$244,000. Additionally, the Township will reduce services provided by the general fund and eliminate all road and capital improvement projects.

REQUIRED SUPPLEMENTAL INFORMATION

TOWNSHIP OF SOMERSET, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 119,329	\$ 119,329	\$ 119,059
State revenues	305,742	305,742	288,797
Charges for services	63,050	63,050	74,067
Licenses and permits	20,375	20,375	26,474
Fines, fees, and forfeits	16,000	16,000	15,227
Interest	9,000	9,000	15,516
Rental revenue	4,000	4,000	4,315
Other	16,110	16,110	32,885
TOTAL REVENUES	<u>\$ 553,606</u>	<u>\$ 553,606</u>	<u>\$ 576,340</u>
EXPENDITURES			
Township board	\$ 14,825	\$ 14,825	\$ 14,600
Supervisor	17,355	17,355	15,219
Elections	22,850	22,850	8,254
Assessor	76,730	76,730	81,376
Legal and accounting	27,450	27,450	11,022
Clerk	47,508	47,508	43,087
Board of review	2,025	2,025	1,341
Treasurer	57,585	57,585	52,982
MB offices	22,600	22,600	19,940
SCCR	10,325	10,325	7,315
JCB	17,675	17,675	13,813
Cemeteries	31,300	31,300	24,951
Social services	1,000	1,000	500
Building department	33,600	33,600	30,723
Drain expense	1,000	1,000	
Street lights	6,000	6,000	5,655
Sewer ad-hoc committee	25,000	25,000	92,294
Underground storage tanks	10,800	10,800	14,948
Postage fees	10,000	10,000	4,264
Fireworks activities	7,550	7,550	6,397
Library	38,693	38,693	36,459
Planning and zoning	23,543	23,543	15,785
TOTAL EXPENDITURES	<u>\$ 505,414</u>	<u>\$ 505,414</u>	<u>\$ 500,925</u>
REVENUES OVER EXPENDITURES	<u>\$ 48,192</u>	<u>\$ 48,192</u>	<u>\$ 75,415</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers (out)	<u>\$ (176,911)</u>	<u>\$ (276,911)</u>	<u>\$ (148,607)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (128,719)</u>	<u>\$ (228,719)</u>	<u>\$ (73,192)</u>
FUND BALANCE - BEGINNING	<u>476,068</u>	<u>476,068</u>	<u>476,068</u>
FUND BALANCE - ENDING	<u><u>\$ 347,349</u></u>	<u><u>\$ 247,349</u></u>	<u><u>\$ 402,876</u></u>

TOWNSHIP OF SOMERSET, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND - ROADS

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 45,601	\$ 45,601	\$ 44,901
State revenues	1,000	28,712	5,244
Interest	1,000	1,000	6,918
Lake LeAnn debt reserve		27,544	
TOTAL REVENUES	<u>\$ 47,601</u>	<u>\$ 102,857</u>	<u>\$ 57,063</u>
EXPENDITURES			
Wages and benefits	\$ 170	\$ 170	\$ 83,369
Road improvements	65,535	65,535	128,510
Road maintenance	45,000	72,712	5,457
Insurance	5,900	5,900	866
Interest expense			
Other	350	350	
Lank LeAnn debt reserve		27,544	
TOTAL EXPENDITURES	<u>\$ 116,955</u>	<u>\$ 172,211</u>	<u>\$ 218,202</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (69,354)</u>	<u>\$ (69,354)</u>	<u>\$ (161,139)</u>
OTHER FINANCING SOURCES			
Operating transfers in	<u>\$ 69,354</u>	<u>\$ 69,354</u>	<u>\$ 15,650</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ (145,489)
FUND BALANCE - BEGINNING	<u>238,572</u>	<u>238,572</u>	<u>238,572</u>
FUND BALANCE - ENDING	<u>\$ 238,572</u>	<u>\$ 238,572</u>	<u>\$ 93,083</u>

TOWNSHIP OF SOMERSET, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND - FIRE

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 120,396	\$ 120,396	\$ 120,597
Charges for services	5,000	5,000	7,175
Federal revenue		56,598	51,598
Donations	1,500	1,500	934
Interest	1,000	1,000	1,136
Sale of fixed asset			8,500
Other			17
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	\$ 127,896	\$ 184,494	\$ 189,957
EXPENDITURES			
Wages and benefits	\$ 101,337	\$ 101,337	\$ 108,222
Supplies	1,000	1,000	1,361
Fuel	3,000	3,000	3,584
Maintenance	9,500	9,500	11,797
Insurance	12,000	12,000	12,528
Utilities	2,000	2,000	2,807
Telephone	3,000	3,000	952
Equipment	10,500	167,098	383,713
Education and training	10,000	10,000	5,675
Contracted labor	1,900	1,900	5,084
Miscellaneous	3,296	3,296	3,097
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 157,533	\$ 314,131	\$ 538,820
REVENUES (UNDER) EXPENDITURES	\$ (29,637)	\$ (129,637)	\$ (348,863)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$ 32,437	\$ 164,437	\$ 157,437
Loan proceeds			200,000
Payments on long-term debt	(2,800)	(34,800)	(35,920)
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	\$ 29,637	\$ 129,637	\$ 321,517
NET CHANGE IN FUND BALANCE	\$	\$	\$ (27,346)
FUND BALANCE - BEGINNING	42,331	42,331	42,331
	<hr/>	<hr/>	<hr/>
FUND BALANCE - ENDING	\$ 42,331	\$ 42,331	\$ 14,985
	<hr/>	<hr/>	<hr/>

TOWNSHIP OF SOMERSET, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND - PARKS AND RECREATION
YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 40,101	\$ 40,101	\$ 40,151
Rental revenue	10,575	10,575	15,492
Donations	2,300	2,300	1,117
Interest	<u>300</u>	<u>300</u>	<u>2,426</u>
TOTAL REVENUES	<u>\$ 53,276</u>	<u>\$ 53,276</u>	<u>\$ 59,186</u>
EXPENDITURES			
Wages and benefits	\$ 3,600	\$ 3,600	\$ 2,389
Contracted labor	11,000	11,000	12,475
Supplies	150	150	21
Maintenance	9,800	9,800	2,060
Fuel	200	200	97
Insurance	2,400	2,400	2,463
Utilities	3,000	3,000	2,385
Equipment	1,700	1,700	157
Improvements	19,326	19,326	21,288
Miscellaneous	<u>2,100</u>	<u>2,100</u>	<u>215</u>
TOTAL EXPENDITURES	<u>\$ 53,276</u>	<u>\$ 53,276</u>	<u>\$ 43,550</u>
REVENUES OVER EXPENDITURES	\$	\$	\$ 15,636
FUND BALANCE - BEGINNING	<u>52,155</u>	<u>52,155</u>	<u>52,155</u>
FUND BALANCE - ENDING	<u><u>\$ 52,155</u></u>	<u><u>\$ 52,155</u></u>	<u><u>\$ 67,791</u></u>

TOWNSHIP OF SOMERSET, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND - CAPITAL IMPROVEMENTS
YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 40,101	\$ 40,101	\$ 40,151
Interest	<u>700</u>	<u>700</u>	<u>3,790</u>
TOTAL REVENUES	<u>\$ 40,801</u>	<u>\$ 40,801</u>	<u>\$ 43,941</u>
EXPENDITURES			
Equipment	<u>\$ 104,401</u>	<u>\$ 104,401</u>	<u>\$ 50,488</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (63,600)</u>	<u>\$ (63,600)</u>	<u>\$ (6,547)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$ 63,600	\$ 63,600	\$
Operating transfers out	<u></u>	<u></u>	<u>(32,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 63,600</u>	<u>\$ 63,600</u>	<u>\$ (32,000)</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ (38,547)
FUND BALANCE - BEGINNING	<u>117,175</u>	<u>117,175</u>	<u>117,175</u>
FUND BALANCE - ENDING	<u><u>\$ 117,175</u></u>	<u><u>\$ 117,175</u></u>	<u><u>\$ 78,628</u></u>

OTHER REPORTS



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TOWNSHIP OF SOMERSET, MICHIGAN

GAO GOVERNMENT AUDITING STANDARDS REPORT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Township Board
Township of Somerset, Michigan
Somerset Center, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Somerset, Michigan as of and for the year ended June 30, 2007, which collectively comprise the Township of Somerset, Michigan's basic financial statements and have issued our report thereon dated October 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Somerset, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Somerset, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Somerset, Michigan's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Somerset, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

accepted accounting principles such that there is more than a remote likelihood that a misstatements of the Township of Somerset, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the Township of Somerset, Michigan's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township of Somerset, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, in light of all the significant deficiencies described in the deficiency schedule, we consider all significant deficiencies to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Somerset, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Township of Somerset, Michigan in a separate letter dated October 18, 2007.

This report is intended for the information of the Township Board, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
October 18, 2007

TOWNSHIP OF SOMERSET, MICHIGAN
SCHEDULE OF FINDINGS
JUNE 30, 2007

2007-1. DISBURSEMENTS

Facts

During the year there were expenditures incurred by the Clerk's office that were not approved by the department head prior to payment.

Policy

Vendor Invoices must be approved by department heads prior to being submitted for payment. Likewise, vendor invoices should not be paid unless approved by department heads. Department head approval is evidenced by their signature on the invoice.

Deficiencies

1. Clerk did not consistently approve vendor invoices through out the year.
2. Deputy clerk paid invoices that were not evidenced by a department head signature.

2007-2. POLICE CAR ACQUISITION

Facts

During the year the Board reviewed and approved a bid for the purchase of a police car from a local car dealership not to exceed a stated price. On the date of purchase the Police Chief verbally requested from the Township Clerk's office that a check be drafted for a sum of money for the payment of the car. The Clerk's office generated the check as requested.

Policy

Vendor Invoices (bill of sale) must be approved by department heads prior to being submitted for payment. Likewise, vendor invoices should not be paid unless approved by department heads. Department head approval is evidenced by their signature on the invoice.

Deficiencies

1. The invoice (bill of sale) was not approved by the Police chief in accordance with Township policy.
2. The Clerk's office generated a check with out proper supporting documentation reporting the correct dollar amount and a signed invoice or bill of sale.

TOWNSHIP OF SOMERSET, MICHIGAN
SCHEDULE OF FINDINGS
JUNE 30, 2007

2007-3. BRIDGE RESTORATION

Facts

In the prior year the Township hired a contractor to repair the aesthetics of six park bridges. However, the Township did not adhere to its policies that relate to hiring contractors.

Policy

Township policy requires a contract to be signed between vendors and the Township in cases where invoices are not submitted by the vendor.

Deficiencies

1. There was no signed contract between the two parties prior to the contractor beginning the repair work but rather there was only a verbal commitment for the payment arrangement. Approximately fourteen months after work began by the contractor the two parties entered into a contract for payment.
2. The Township did not account for the long-term obligation owed to the contractor in its financial books.

2007-4. EXCESS PAYMENT TO VENDOR

Facts

The Township pays a contractor monthly for the mowing of McCourtie Park, and the Township Hall's lawn. During the year, the Township erroneously paid the contractor double the agreed upon monthly fee for the first two months of the contract. After two months of payment, the contractor notified the Township of the payment errors.

Policy

Township policy requires that contractors be paid according to the board approved contract terms and within the budgeted amount.

Deficiency

Although material to the financial statements, and in excess of budget, the Township was unable to detect the overpayment in a timely manner.

2007-5. YEAR END ACCOUNTING

Facts

At the Township's fiscal year end the Clerk's office prepared the Township's financial books for audit. However, year end accounts payable and amounts due from the State of Michigan for revenue sharing were not recorded in the Township's financial books.

Policy

None

Deficiencies

1. Payables for fiscal year ended June 30, 2007 totaling \$39,465 were not recorded in the Township's funds.
2. State of Michigan revenue sharing for fiscal year ended June 30, 2007 collected in July and August 2007 totaling \$47,717 was not recorded in the Township's general operating fund.

TOWNSHIP OF SOMERSET, MICHIGAN
SCHEDULE OF FINDINGS
JUNE 30, 2007

2007-6. FINANCIAL STATEMENT AND DISCLOSURE PREPARATION

Facts

The Township does not prepare its financial statements and note disclosures in accordance with generally accepted accounting principles and nor does the Township have the expertise to do so.

Policy

Township contracts with its auditors to prepare year end financial statements and note disclosures in accordance with generally accepted accounting principles.

Deficiency

The Township does not have internal controls over the preparation of its financial statements and note disclosures.



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TOWNSHIP OF SOMERSET, MICHIGAN
AUDITOR'S COMMENTS AND RECOMMENDATIONS

October 18, 2007

Township Board
Township of Somerset, Michigan
Somerset Center, Michigan

In planning and performing our audit of the financial statements of Township of Somerset, Michigan for the year ended June 30, 2007, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated October 18, 2007, on the financial statements of Township of Somerset, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Township's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

DISBURSEMENTS

During the year there were expenditures incurred by the Clerk's office that were not approved by the department head prior to payment. Township policy requires that vendor invoices are approved by the department head, evidenced by signature, prior to payment.

We recommend the department heads adhere to the Township policy, and approve all invoices by signature prior to submitting for payment. Furthermore, we recommend that the deputy clerk does not pay vendor invoices that are not approved by signature of the department head.

POLICE CAR ACQUISITION

During the year, the Clerk's office generated a check for the acquisition of a new police car. However, there was not a bill of sale or invoice from which this check was produced. Rather, the check was generated based on a verbal communication from the Police Chief as to the amount and vendor.

We recommend the Township adhere to its policy and only make payments from approved invoices.

BRIDGE RESTORATION

In the prior year, the Township hired a contractor to repair the aesthetics of six park bridges. However, the Township did not adhere to its policies that relate to hiring contractors.

1. There was no signed contract between the two parties prior to the contractor beginning the repair work but rather, there was only a verbal commitment for the payment arrangement. Approximately 14 months after work began, the two parties entered into a contract for payment.
2. The Township did not account for the long-term obligation owed to the contractor in its financial books.

We recommend the Township adhere to its policy and not enter into any agreements without board approval, obtain written contracts for all agreements prior to any work being performed or payments being made, and account for contract obligations in its financial books.

YEAR END CLOSING PROCEDURES

During our audit we identified that the Township does not adjust its year end books to record all receivables and payables.

We recommend the Township follow a set of procedures to ensure that the proper year end adjustments are made as of June 30th. A "year end closing checklist" should be created and followed. This checklist should, at a minimum, include the following procedures:

1. Record all accounts receivable
2. Record all monies due from other governments, i.e. state shared revenue
3. Record all accounts payable
4. Record any accrued expenses, such as payroll
5. Adjust GASB 34 fund for all acquisitions, disposals, and long-term obligations

INTERNAL CONTROL DEFICIENCIES

As stated in the *Government Auditing Standards* Report, we have identified numerous significant deficiencies in the Township's internal control.

We recommend the Township review each of the deficiencies and take corrective action to remedy them. In many cases, Township policy prohibits the occurrence of these deficiencies. However, it appears that there is management override of controls at multiple levels within the Township. Internal controls are set in place, but are not being followed. We recommend the Township create a corrective action plan to ensure the controls designed by the Township are being followed.

DISASTER RECOVERY PLAN

Often times, a disaster is thought of as occurring from a tornado, earthquake, or other types of natural disasters. However, disaster to an organization's information and financial systems can occur resulting from employee sabotage, theft, and electronic destruction through a computer crash, infiltrating corruption through the internet, or a defective floppy or CD ROM disc.

We recommend the Township create a plan that continuously captures and saves a backup of the information that is pertinent to the operations of the Township. Consideration should also be given to maintaining backed up information offsite.

Disaster to an organization's operations can also occur through the sudden and/or extended absence of key personnel.

We recommend the Township create a plan in order to mitigate such an occurrence. The plan should, at a minimum, determine what personnel will perform additional functions and who will oversee those functions.

EXPENDITURES OVER BUDGET

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved Fire Fund and Road Fund budgets of the Township were adopted at the fund level. During the year ended June 30, 2007, the Township incurred expenditures in the funds, which were in excess of the amended budget as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Fire Fund	<u>\$ 326,431</u>	<u>\$ 546,038</u>	<u>\$ 219,607</u>
Road Fund	<u>\$ 172,211</u>	<u>\$ 218,201</u>	<u>\$ 45,990</u>

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, auditing standards indicate that if auditors are relied upon to produce reliable financial statements and note disclosures, even from information provided by management, auditors are considered then to be a part of the organization's control system for financial reporting.